



San Diego City Attorney **MICHAEL J. AGUIRRE**

NEWS RELEASE

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PENSION AUDIT REVEALS MULTIPLE DEFICIENCIES REPORT BOLSTERS CITY ATTORNEY'S CALLS FOR PENSION REFORM

San Diego, CA: In another indication that the San Diego City Attorney's longstanding concerns about the San Diego City Employees Retirement System (SDCERS) are justified, Brown Armstrong, the SDCERS's outside auditor, has identified 29 deficiencies in the pension system's internal control mechanisms. These deficiencies, which could jeopardize the certification of SDCERS's financial statements for FY 2004, were revealed in a February 22, 2005 draft report.

"What this tells us is that the internal books and records of the pension plan are in shambles," said City Attorney Michael Aguirre. "The organization is more like a fly-by-night operation than a sound system responsible for safeguarding the retirement funds of City employees."

The accounting firm's draft report listed the deficiencies as "reportable conditions" under standards established by the American Institute of Certified Public Accounts. Reportable conditions involve matters related to significant deficiencies in the design or operation of an organization's internal control mechanisms. According to Brown Armstrong, these deficiencies could adversely affect the pension system's ability to record, process, summarize, and report financial data consistent with assertions that SDCERS's management made in past financial statements.

Below are some of the 29 deficiencies listed in the report:

- **Cash with City:** "During our analysis of cash, we noted that a reconciliation had not been prepared since June, 2003 for sdCER's Cash with City. This finding has resulted in a Qualified Opinion to be issued on the June 30, 2004, sdCERS financial statements."
- **Unclaimed Funds:** "During our testing of active participants, we noted that SDCERS does not currently perform procedures to notify terminated participants of their funds still on deposit with sdDCERS."
- **Controls over Pension Disbursements:** "When responding to an information request for Brown Armstrong, two retiree checks were included with information provided to Brown Armstrong."
- **Expenditures:** "During our testing of expenditures, we noted no formal policy for processing expenditures. We noted inconsistencies in the processing of the 'request for direct payment' forms,

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- including: no formalized policies and procedures, lack of approval, difference in account coding from source document to form, and missing invoices and 'request for direct payment' forms misplaced during the City's audit."

At today's news conference, the City Attorney questioned whether the draft had been brought to the attention of the Pension Board, City Manager, and City Council.

"This is a house in disrepair," said City Attorney Michael Aguirre. "For months the Pension Board has assured us that all is well. It is time for the City Council to move aggressively and correct matters."

Last March, the City Attorney called for joint audits of the 2003 and 2004 financial statements of both the City and City's pension plan stating that it would expedite the City's return to fiscal soundness.

The SDCERS's pension plan has over 19,000 active and retired members. Currently, the retirement plan is \$1.9 billion in the hole and is only 58% funded.

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